INTRODUCTORY STATEMENT

PRESS CONFERENCE

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

While the rebound of economic activity in the third quarter was stronger than expected and the prospects for the roll-out of vaccines are encouraging, the pandemic continues to pose serious risks to public health and to the euro area and global economies. The resurgence in COVID-19 cases and the associated containment measures are significantly restricting euro area economic activity, which is expected to have contracted in the fourth quarter of 2020. While activity in the manufacturing sector continues to hold up well, services activity is being severely curbed by the increase in infection rates and the new restrictions on social interaction and mobility. Inflation remains very low in the context of weak demand and significant slack in labour and product markets. Overall, the incoming data and our staff projections suggest a more pronounced near-term impact of the pandemic on the economy and a more protracted weakness in inflation than previously envisaged.

In view of the economic fallout from the resurgence of the pandemic, today the Governing Council recalibrated its monetary policy instruments as follows:

First, the Governing Council decided to keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 per cent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Second, we decided to increase the envelope of the pandemic emergency purchase programme (PEPP) by €500 billion to a total of €1,850 billion. We also extended the horizon for net purchases under the PEPP to at least the end of March 2022. In any case, we will conduct net purchases until the Governing Council judges that the coronavirus crisis phase is over.

We will conduct our purchases under the PEPP to preserve favourable financing conditions over this extended period. We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

The extension of our PEPP purchases over a longer horizon reflects the prolonged fallout from the pandemic for the economy and inflation. It allows for a continuous market presence and more durable support from our monetary stimulus. Preserving favourable financing conditions over the pandemic period will help to reduce uncertainty and bolster confidence, thereby encouraging consumer spending and business investment, and, ultimately, underpinning the economic recovery and helping to offset the downward impact of the pandemic on the projected path of inflation.

We also decided to extend the reinvestment of principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Third, the Governing Council decided to further recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO III). Specifically, we decided to extend the period over which considerably more favourable terms will apply by twelve months, to June 2022. We will also conduct three additional operations between June and December 2021. Moreover, we decided to raise the total amount that counterparties will be entitled to borrow in TLTRO III operations from 50 per cent to 55 per cent of their stock of eligible loans. In order to provide an incentive for banks to sustain the current level of bank lending, the recalibrated TLTRO III borrowing conditions will be made available only to banks that achieve a new lending performance target. The extension of the pandemic-related low interest rate period under TLTRO III, the addition of more operations and the increase in the amount that can potentially be borrowed will preserve the very attractive funding conditions for banks. This will help to ensure that they can continue to offer favourable lending conditions and have ample liquidity to extend loans to households and firms.

Fourth, we decided to extend to June 2022 the duration of the set of collateral easing measures adopted by the Governing Council on 7 and 22 April 2020. The extension of these measures will continue to ensure that banks can make full use of the Eurosystem’s liquidity operations, most notably the recalibrated TLTROs. The Governing Council will reassess the collateral easing measures before June 2022, ensuring that Eurosystem counterparties’ participation in TLTRO III operations is not adversely affected.

Fifth, the Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which will continue to provide an effective liquidity backstop.

Sixth, net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Seventh, the Eurosystem repo facility for central banks (EUREP) and all temporary swap and repo lines with non-euro area central banks will be extended until March 2022.

Finally, we decided to continue conducting our regular lending operations as fixed rate tender procedures with full allotment at the prevailing conditions for as long as necessary.

Separate press releases with further details of the measures taken by the Governing Council will be published this afternoon at 15:30 CET.

The monetary policy measures taken today will contribute to preserving favourable financing conditions over the pandemic period, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability. At the same time, uncertainty remains high, including with regard to the dynamics of the pandemic and the timing of vaccine roll-outs. We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. We therefore continue to stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Following a sharp contraction in the first half of 2020, euro area real GDP rebounded strongly and rose by 12.5 per cent, quarter on quarter, in the third quarter, although remaining well below pre-pandemic levels. The second wave of the pandemic and the associated intensification of containment measures observed since mid-October are expected to result in a renewed significant decline in activity in the fourth quarter, although to a much lesser extent than observed in the second quarter of this year.

Economic developments continue to be uneven across sectors, with activity in the services sector being more adversely affected by the new restrictions on social interaction and mobility than activity in the industrial sector. Although fiscal policy measures are supporting households and firms, consumers remain cautious in the light of the pandemic and its ramifications for employment and earnings. Moreover, weaker balance sheets and uncertainty about the economic outlook are weighing on business investment.

Looking ahead, the news of prospective roll-outs of vaccines allows for greater confidence in the assumption of a gradual resolution of the health crisis. However, it will take time until widespread immunity is achieved, while further resurgences in infections, with challenges to public health and economic prospects, cannot be ruled out. Over the medium term, the recovery of the euro area economy should be supported by favourable financing conditions, an expansionary fiscal stance and a recovery in demand as containment measures are lifted and uncertainty recedes.

This assessment is broadly reflected in the baseline scenario of the December 2020 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP growth at -7.3 per cent in 2020, 3.9 per cent in 2021, 4.2 per cent in 2022 and 2.1 per cent in 2023. Compared with the September 2020 ECB staff macroeconomic projections, the outlook for economic activity has been revised down in the short term, but is seen to broadly recover to the level projected in the September baseline scenario over the medium term.

Overall, the risks surrounding the euro area growth outlook remain tilted to the downside, but have become less pronounced. While the news about the prospects for vaccine roll-outs in the near future is encouraging, downside risks remain related to the implications of the pandemic for economic and financial conditions.

According to Eurostat's flash estimate, euro area annual inflation remained unchanged at -0.3 per cent in November. On the basis of oil price dynamics and taking into account the temporary reduction in the German VAT rate, headline inflation is likely to remain negative until early 2021. Thereafter, it is expected to increase owing to the end of the temporary VAT reduction in Germany and upward base effects in energy price inflation. At the same time, underlying price pressures are expected to remain subdued owing to weak demand, notably in the tourism and travel-related sectors, as well as to low wage pressures and the appreciation of the euro exchange rate. Once the impact of the pandemic fades, a recovery in demand, supported by accommodative fiscal and monetary policies, will put upward pressure on inflation over the medium term. Market-based indicators and survey-based measures of longer-term inflation expectations remain at low levels.

This assessment is broadly reflected in the baseline scenario of the December 2020 Eurosystem staff macroeconomic projections for the euro area, which foresees annual inflation at 0.2 per cent in 2020, 1.0 per cent in 2021, 1.1 per cent in 2022 and 1.4 per cent in 2023. Compared with the September 2020 ECB staff macroeconomic projections, the outlook for inflation has been revised down for 2020 and 2022.

Turning to the monetary analysis, the annual growth of broad money (M3) remained broadly unchanged at 10.5 per cent in October 2020. Strong money growth has been supported by the ongoing asset purchases by the Eurosystem, which have become the largest source of money creation. In the context of a still heightened preference for liquidity in the money-holding sector and a low opportunity cost of holding the most liquid forms of money, the narrow monetary aggregate M1 continues to be the main contributor to broad money growth.

The growth of lending to the private sector has plateaued, while still recording higher growth rates than prior to the COVID-19 pandemic. Following strong increases in the early months of the pandemic, the annual growth rate of loans to non-financial corporations fell to 6.8 per cent in October, after 7.1 per cent in September. This deceleration has occurred in the context of abating emergency liquidity needs, weak investment and tighter credit conditions on loans to firms, as signalled by our bank lending survey for the euro area for the third quarter of 2020. The annual growth rate of loans to households stood at 3.1 per cent in October, unchanged from September.

Overall, our policy measures, together with the measures adopted by national governments and European institutions, remain essential to support bank lending conditions and access to financing, in particular for those most affected by the ramifications of the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary to support economic activity and the robust convergence of inflation to levels that are below, but close to, 2 per cent over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains critical, in view of the sharp contraction in the euro area economy. Fiscal measures taken in response to the pandemic emergency should, as much as possible, be targeted and temporary in nature. At the same time, weak demand from firms and households and the heightened risk of a delayed recovery in the light of the new lockdowns owing to the second wave of the pandemic warrant continued support from national fiscal policies. The three safety nets endorsed by the European Council for workers, businesses and sovereigns provide important funding support in this context.

The Governing Council recognises the key role of the Next Generation EU package and stresses the importance of it becoming operational without delay. It calls on Member States to deploy the funds for productive public spending, accompanied by productivity-enhancing **structural policies**. This would allow the Next Generation EU programme to contribute to a faster, stronger and more uniform recovery and would increase economic resilience and the growth potential of Member States' economies, thereby supporting the effectiveness of monetary policy in the euro area. Such structural policies are particularly important in addressing long-standing structural and institutional weaknesses and in accelerating the green and digital transitions.

We are now ready to take your questions.

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I'd like to ask how did you arrive at €500 billion in nine months, if you could give me a bit of a run down, what were the alternatives on the table, what was the discussion and in the end was it a unanimous decision? Second question again is about the appreciation of the euro, it's an issue that's come back over the last two months. What was your discussion about the exchange rate, what was the nature of the discussion, if you could give me a bit of colour on what was said, what were the concerns expressed on the foreign exchange rate.

Lagarde: Let me just sum up what we have decided and then I'll go into the actual description of the package and the reasons behind it. What we have decided, as was anticipated as a result of the last October monetary policy discussions, is a recalibration of those instruments that we determined were most effective under the current pandemic circumstances. And it is with that in mind that we decided to concentrate the recalibration on PEPP, a temporary targeted and flexible asset purchase programme that is specifically designed for the pandemic; on TLTRO III which is intended to provide as much refinancing as possible to those banks that are lending to the economy; and to offer a very attractive rate for those that actually comply with the objective. The threshold is to at least maintain, if not increase, lending to the economy. And then of course we also decided on all the measures that come with it, in particular the extension of the term during which the pool of collateral is enlarged and taken into account for the purposes of TLTROs. And then also the extension of our swap and repo lines and so on and so forth.

So let us take the duration first: there was a discussion as to how long the extension should be and why should there be an extension in the first place? Well, because clearly we are facing circumstances that are more difficult in the short-term and that difficulty has been caused by the second wave and the containment measures that have been taken as a result of that second wave. I think it's fair to say that we all had anticipated that there would be a possible second wave. It was actually embedded in previous projections. However, the depth of it, the duration of it and the containment measures associated with it were not anticipated to the extent that they actually occurred and are still taking place. So, it was sensible to extend [the PEPP programme] because of the impact that it has on the economy in the short order. And I remind you that the fourth quarter is going to be negative, -2.2% we believe, and it's going to carry into the first quarter of 2021. And why did we decide on nine months? Well, it's fairly simple: we are, fortunately, economists. In addition to having all the economic knowledge and being able to anticipate, we also have to be very aware and attentive to health literature and the forecast that scientists have regarding immunity in respect to the roll-out of vaccinations. That's how we came up with this nine months' extension because we have good reasons to believe so - you read the same material. We try to make sense of all of that. We have good reasons to believe that by the end of 2021, with all the uncertainty associated with it, let's face it, that we will have reached sufficient herd immunity. Also to hope that by the end of 2021 the economy will begin to function under more normal circumstances and that in particular the service sector will no longer be impaired by a lot of this social distancing and these restrictions that apply at the moment and do not facilitate the growth of the sector.

So, that takes you into the beginning of 2022 where the economy really begins to recover seriously, where recovery takes root and where we are essentially two years after the beginning of COVID. So, I think you combine all that and we arrive at this extension by nine months. Now, the volume of additional purchases that we have considered is clearly intended to deal with our focus, which is to preserve favourable financing conditions and that is really what is guiding our action going forward. That will lead us to purchase in a slightly different way than we have in the past as you will have noted in my reading of the introductory statement. There we state very clearly - I think it's at the top of page two for those of you who have it - we say we will conduct our purchases under the PEPP to preserve favourable financing conditions over this extended period, that is our objective. We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions which is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. So, it's all nicely embedded in that long and fairly complicated sentence but that is what has driven our calibration of the additional PEPP that we have decided.

Now, you wanted to understand our discussions about the rate. Let me just remind you of our position. We do not target exchange rates. But clearly the exchange rate, and in particular the appreciation of the euro, plays an important role and exercises downward pressure on prices, so we monitor it. We will continue to monitor it very carefully going forward.

So, I have two questions. You must have read the Bank of International Settlements' quarterly report as well, where they say that they are seeing a risk of a solvency crisis. I would like to hear from you whether you think that's a risk in terms of the next phase of that crisis we are currently in. And then I also have another question on why you didn't touch the rate, which clearly would have dragged the rates lower into negative territory. But looking at the package, which kind of touched almost every instrument, why didn't you touch the rate?

Lagarde: On your first question, I think that the monetary policy that we have decided as well as the fiscal measures that have been decided at member state level as well as at the European regional levels are working hand in hand, contrary to previous crises. They have managed to provide enough income and enough support by way of guarantees, by way of moratoria, in order to help the economy from all sectors to go across the pandemic and sort of cross that bridge with appropriate support in order to avoid the catastrophic fallout had there been none of that support. I think that in that respect monetary policy has played a significant role in supporting all sectors of the economy and making sure that credit flows through the economy and that there is no major fallout in terms insolvency. But this is a risk that is clearly looming on the horizon and that is precisely the reason why we, ourselves, encourage fiscal authorities to avoid the fiscal, the cliff effect that would result from a removal and a withdrawal of the fiscal measures. And that is also the reason why we have decided to recalibrate our two key instruments, the PEPP and the TLTRO in order to make sure that we continue to provide the necessary support to credit, to make sure that financing conditions remain favourable to all sectors of the economy in order to go across the pandemic until such a time when immunity is sufficient. This is in order to reach a situation where the economy actually picks up and recovers in a sustainable fashion. So, I think that one of the reasons we are acting in that respect now is precisely to avoid that potential risk and to take those companies, those corporates, those entrepreneurs, those households to the other side of the pandemic and to the other side of the economic consequences resulting from the pandemic.

Now, on your issue of the rate, I want to first of all point you to a clause that you know well, which is, I think, on page one of our introductory statement. It indicates very clearly - and that’s part of our forward guidance, as you know - when I read the first sentence you understood clearly that we decided to keep the key ECB interest rates unchanged. And then I followed with: “We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge, etc.” So both routes are indicated clearly in this forward guidance and, of course, interest rate movement, particularly the deposit facility rate, is part of our toolbox. And as we have said for all our instruments, we stand ready to continue to recalibrate, adjust and use all tools available in the toolbox.

I have two questions, the first is again on negative interest rates. On the TLTRO, extended TLTRO I suppose, the -1% is going to stay. And if it is so, how important is this -1% for the banking sector. My second question is on your macroeconomic projections, the pandemic is a symmetric shock, but it has asymmetric impacts as we know and you used the word “uneven” for the sectors. I wonder if you can say more about these macroeconomic projections on how uneven the recovery will be amongst the member states of the euro area in 2021 and if you are worried about further fragmentation. Thank you and, if I may, best wishes to you and to the ECB for Christmas and New Year.

Lagarde: Thank you so much for your good wishes and let me say that we reciprocate to you and to all your colleagues because this is our last press conference before year-end. So, turning back to your question, you are right that we are keeping this very attractive -100 basis points as is, which is a very attractive rate. Now let me just pause for a second on that rate because we should not assume - and nobody should assume - that this is a rate that is available come what may and under no particular conditions and in all circumstances. It’s a rate that is intended to incentivise the banking sector to provide financing to the economy. And it is not available without condition, it is only available if banks actually maintain or exceed the level of lending that they have provided beforehand. What are we doing with these TLTRO new measures? We’re doing three things. We are enlarging the volume of lending that can be obtained at those rates, we are maintaining the rate where it is, -100 basis points, and we are also slightly changing the reference period, which is the base according to which the volume of lending benefits or not from the additional 100 basis points. This is to make it a little bit more challenging because it is a very attractive programme and we think that it has proven very effective.

When we look at various indicators, whether it is the take-up of TLTROs in June - massively above expectations - in September - still above expectations - whether it is the volume of lending to the economy, either at corporate level or to households, we're always seeing a significant increase. Less so in October, for sure, for the reasons that are mentioned clearly in the introductory summary, but significantly still. And if you look at the rates at which those loans are procured to corporates or to households, it is virtually at the lowest levels ever. I think for corporates it has once, in May 2020, been a little lower than that, but it is 1.35% for households and a little over 1.5% for corporates. So, on all three accounts, volume of take-up, increase of loans and rates at which lending is granted by banks, it's clearly working to the effect that we wanted.

Now, the reason we tried to continue to make it attractive and to enlarge it is because we are beginning to see some signals here and there, particularly in the bank lending surveys but in other surveys as well, about the terms and conditions that are offered to borrowers. We're beginning to see a little bit of a tightening and we think that we should obviously encourage proper assessment of the risk and not encourage unwarranted lending or at least not properly-assessed lending, but we think that lending conditions should be favourable.

You asked me about the unevenness. I think what I referred to was the unevenness between sectors. When you look at past numbers, when you look at the PMI, when you look at alternative flash estimates, it is clear that the industry is recovering and the numbers in general are quite strong. Whereas on the other hand the service sector is still bearing the brunt of the necessary social distancing constraint and other measures that put a brake on the service sector recovery. We look at numbers on an aggregate basis in the main instance. And while it is clear that some countries started in this pandemic at a different position from others, some having fiscal space, some not having it, some having a lower debt level and others having a higher debt level. We very much hope that Next Generation EU and the other tools that are made available whether it is SURE, whether it is the ESM programmes or whether it is the guarantees offered by the EIB that will supplement the national guarantees. We very much hope that these programmes and the way in which they are provided will actually temper this potentially uneven recovery on a jurisdiction by jurisdiction basis. And I remind you that we have designed PEPP with that risk in mind and we have applied in the roll-out of PEPP all the flexibility that was needed across classes of assets, across time by front-loading and across jurisdictions in order to resist destabilisation, to restore stabilisation and make sure that the risk of fragmentation could be kept at bay.

I have two questions for you, both on the duration issue. The first question is: Imagine the scenario that, as you said, risks are less pronounced, the vaccine is being rolled out, there could be quite a strong recovery in the economy and in inflation next year. Imagine that that is stronger than you are forecasting, would that lead to you curtailing your crisis management tools, the PEPP and the TLTROs earlier than expected during the course of next year? And secondly, how will the ECB decide when the pandemic crisis is over, what metric will you look at? Is it at GDP, is it at inflation and when inflation is back on course, how will you judge that? Thank you very much.

Lagarde: Thank you so much for your question. You know I think we really tailored the extension of our PEPP with the potential duration of the pandemic-related crisis in mind. Second, we did work on scenarios as well, I did not mention them in the introductory statement, but you will be seeing them when you see the projections when they are published later this afternoon. So, we worked on scenarios as well to anticipate a mild scenario, severe scenario and, you know, sort of tailor our policies in respect of these two scenarios. But the special design of this extension is precisely intended to deal with that situation. And you will have noted that as I had indicated back in October and as the Governing Council had decided back then and as I picked up in my ECB Forum on Central Banking (which would have taken place at Sintra had it not been for the pandemic), we insist on maintaining favourable financing conditions. And that, indeed, is a factor of what are the economic circumstances, what impact it has on credit to the economy, what impact it has on yields across the board, you know from corporate to sovereigns. What we plan on doing is to adjust our purchases on the basis of what is needed to maintain those favourable financing conditions.

So, to take your example, if we have a strong recovery which has an impact on inflation that puts it back onto the path that we had pre-pandemic, then clearly financing conditions would be regarded as quite favourable and would not necessarily require that we do massive purchases. We would tailor our purchases on the basis of favourable financing conditions. Equally, if we had a tightening of financing conditions that would be inconsistent with countering the negative impact of the pandemic on our inflation path, then of course we would do the right level of purchases in order to weigh on that. The compass, if you will, or the clear focus that we have will be those favourable financing conditions, and that will entail variable purchases so it will be slightly different from what it had been in the past: not necessarily fixed, monthly, linear purchases, but purchases that will adjust depending on market conditions in order to procure those favourable financing conditions.

When is the pandemic crisis over? Well, as I said we have tried to learn and read from other scientists, those that know better about viruses, vaccinations and how long it takes to reach herd immunity. And based on what we know today we have good reasons to believe that the end of 2021 will likely signal the herd immunity and we've extended at least until March 2022 to cover the pick-up of recovery and the resulting stabilisation of prices that would result from that. As you have heard, we say at least until March 2022 and if it proves necessary, because the pandemic is not over, because the economic consequences are still bearing heavily on economic agents, then we will reconsider that timetable. And as always, and it's loud and clear in the introductory statement, we always stand ready to recalibrate, revisit all our instruments.

Good afternoon from Athens, from rainy Athens. I would also like to pose two questions. The first one is whether it would be possible for Greek bonds with regard to their low investment grade to continue to be accepted as collateral after the pandemic, if some requirements are met, and if so, which would these requirements be? And my second question is when do you see a rise of inflation to healthy levels, I mean it has to do with when will the pandemic end, but since the inflation rate has been low for a longer period of time, when do you actually expect it to reach close to the 2%?

Lagarde: So, on your first question about the Greek bonds remaining an exception which they are at the moment and at a later stage when PEPP is over, this is not a matter that we have discussed at the Governing Council, obviously. In terms of inflation, let me say that first of all it is disappointingly low, it has been negative for the last three months, it's at -0.3% yet again, and it is rooted in some specific factors that have to do with the very low cost of energy, it has to do with the German VAT and in that respect it is conjunctural. But it is also caused by weak demand, it is also caused by lower wages and it is also caused by the exchange rate appreciation. So, we have multiple factors that can explain this situation. Clearly we expect those rates to improve in the course of 2021, you will remember that in our projection we forecast 0.2% inflation followed by 1%, followed by 1.1% because of multiple factors: there will be base effects, there will be VAT, German VAT being reinstated to previous levels, there will be hopefully demand picking up and recovery taking hold which obviously would exercise an upward pressure on price levels. But, for the moment the package that we have in place and the monetary policy that we are deploying corresponds to these exceptional circumstances and is therefore of an exceptional nature, which is the characteristic of PEPP, for instance. So, our determination as is indicated in our monetary policy decisions is to maintain favourable financing conditions in order to bolster confidence, in order to remove uncertainty, in order to make sure that recovery takes hold and, as a result, remove some of the negative impact created by the pandemic on our path of inflation. And that is with the hope that at the end of this specific and exceptional programme we can hopefully return to the pre-COVID times both in terms of output gap and in terms of inflation gap. That’s really the intention and, of course, because our mandate is price stability, our ultimate aim is inflation at close to, but below, 2%.

Good afternoon President Lagarde.

Two questions if I may. The first is today’s decision, which sort of emphasises financial conditions and means de facto yield curve control. And secondly, what does the provision of more cheap central bank loans on condition of increased lending to the real economy do to address concern over the growth of non-performing loans across the euro area and in some countries in particular?

Lagarde: Thank you for your questions. On the first one, let me try to explain what we are doing with our monetary policy. There are three elements which characterise our policy. The first one, you’ve picked it up yourself, is preserving favourable financing conditions over the pandemic period. This is crucial to build that bridge across the pandemic until we have reached herd immunity so that the economic recovery is well-advanced, self-sustained and inflation is back at its pre-pandemic path. That’s what we are trying to do. Second, to deliver on that commitment, as I have explained, that our purchase envelope can be used flexibly. You’ve heard me talk many times about the flexibility across time, asset classes, jurisdictions. I’m talking about a slightly different flexibility here because what we mean to do is to scale our purchases to whatever is needed to preserve the favourable financing conditions. And with the volumes that we have, with what is left under the previous PEPP, over €600 billion, plus what we have decided today, it allows us for significant constant market presence. The envelope does not have to be spent in a pre-defined way, or even in full, for that matter. So long as financing conditions remain favourable. Equally, the envelope can be increased if it is necessary in line with our commitment to adjust all our instruments as appropriate to ensure that inflation moves towards our aim in a sustained manner. And third, we define favourable financing conditions in a very holistic way, so we are not looking at one single sector or one single indicator, we are looking at lending rates, lending rates to corporates, lending rates to households, we are looking at corporate yields, we are looking at sovereign yields, we are looking at the supporting of credit flows to the economy and we want to make sure that those financing conditions remain favourable for all sectors of the economy. So those will be our targets and our measurement instruments.

On your second point, you know it is obviously for banks who are ultimately the lenders to assess and to manage risks and to take the appropriate provisions and to request the appropriate guarantees. Our job as central bank is to make sure that financing is available and can flow to banks that are doing their job of lending to the economy and financing economic agents. Thank you.

One of my questions is that there are growing concerns about the fact that with the increase of the PEPP envelope the ECB may struggle to find bonds to buy due to the self-imposed limits. Are you confident that, if needed, you will find enough bonds to buy to use the whole envelope or is it a concern to you?

Lagarde: No, it is not. It is not a concern because we have said over and over that any self-imposed limits that would impair the conduct of monetary policy would not stop us from conducting monetary policy. Add to which I think that if you look at the level of issuance that is forecasted for 2021-2022 both at national, at supranational levels, at agencies' level from which we buy there is quite a lot that is coming. But the key principle is that self-imposed limits will not be an obstacle to the proper delivery of our monetary policy.

You said there was discussion in the Governing Council about the length of the extension of the PEPP: so was today's decision unanimous? And my second question is about climate change, your colleague, Governing Council member Jens Weidmann, said in his speech recently that there is no mandate for an active role of the ECB in the fight against climate change. He said an active role in climate change policy could undermine our independence and ultimately jeopardise our ability to maintain price stability. Would you agree with his view? Thank you.

Lagarde: I agree with many views of Jens Weidmann, the President of the Bundesbank. On this issue of climate, I know it's very tempting to oppose my views and the views of my colleague and friend Jens Weidmann. There are lots of things that we agree upon and I think that he is equally concerned as I am about the impact of climate change on our economies. I think that those issues will actually come to a head when we have the debate about climate change which is an entire chapter of our strategy review. This is a view that I hold very firmly: while it is not here a question of substituting government, it is not a question of turning ourselves into a fiscal agent or into a regulatory authority in the universe of climate change measures, and I think on that point I would completely agree with my colleague and friend, Jens. Equally, I believe that in everything that we do we have to be mindful of the climate change impact in terms of risk and in terms of delivering on our mandate which is price stability. And one of the debates that we will have as part of our strategy review is whether or not the direct and indirect impact of climate change will have a bearing on our primary mandate of price stability. I happen to think that it does. Now there might be different views, but I think we should debate those views and we will do so as an institution. Equally, I believe that we have to look at our various portfolios, our own portfolios, our pension portfolio as well as our monetary policy portfolio to make sure that we assess risks properly. And in that respect I'm very happy that the European Parliament has moved forward with taxonomy, that the Commission has now developed the soft law that is associated with that taxonomy and will continue to develop even more work in order to make sure that we have the whole range from the very, very green to the not-so-green at the other end, so that we can have a proper understanding of our risk position. Also important will be the obligation to disclose and explain, that will hopefully be applying to banks in short order, which will require that they themselves conduct due diligence in order to make sure that they properly assess the risk of their counterparty.

So, let me also mention that we are trying to make progress step by step and in so doing we have now enlarged our bond purchasable universe by accepting as of 1 January green bonds that are associated with a variable coupon that are a factor of ESG criteria. This used not to be possible because the coupon had to be fixed. We have now slightly varied that to accept and enlarge the green bond universe from which we can buy and of which we are a significant purchaser for that matter. So, on climate change, trust me, we are going to continue that discussion and as I said it's not a question of substituting for other authorities who have to do the job. It's not for us to regulate. It's not for us to produce a taxonomy; others are doing this job and will continue to do it. But we have to bear in mind those risks and the direct and indirect impact that risk has on the natural interest rate, that it has on the price stability objectives and the impact on inflation of, for instance, major weather circumstances, or drought, or carbon tax if and when it comes, and so on and so forth. So, we have great debates ahead and they will come.

Now, I guess we are out of time, so I can take at least take one minute to wish everybody a happy year-end, happy holidays and we look forward to seeing you on the other side of the pandemic, of course, but also on the other side of the year in 2021. Thank you so much.

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